

CONSOLIDATED STATEMENT OF INCOME

(unaudited)

	First Half	
	1972	1971
INCOME		
Net oil and gas sales	\$ 563,000	\$ 450,000
Interest income	30,000	25,000
	<u>593,000</u>	<u>475,000</u>
CASH EXPENSES		
Production	137,000	109,000
General and administrative	40,000	42,000
Interest	22,000	21,000
	<u>199,000</u>	<u>172,000</u>
CASH FLOW FROM OPERATIONS	394,000	303,000
DEPRECIATION AND DEPLETION	144,000	113,000
NET INCOME	<u>\$ 250,000</u>	<u>\$ 190,000</u>
CASH FLOW per common share	9.9¢	7.6¢
NET INCOME per common share	6.3¢	4.8¢

SOURCE AND APPLICATION OF FUNDS

(unaudited)

	First Half	
	1972	1971
SOURCE OF FUNDS		
Cash flow from operations	\$ 394,000	\$ 303,000
Sale of production payments	—	425,000
	<u>394,000</u>	<u>728,000</u>
APPLICATION OF FUNDS		
Land acquisition and rentals	85,000	35,000
Geological and geophysical	105,000	44,000
Non-productive drilling	76,000	26,000
Productive drilling and equipment	130,000	48,000
	<u>396,000</u>	<u>153,000</u>
Retirement of production payments	239,000	218,000
	<u>635,000</u>	<u>371,000</u>
Increase (decrease) in working capital	<u>\$ (241,000)</u>	<u>\$ 357,000</u>
OIL PRODUCTION		
Net barrels	171,900	142,400

PETROL

PROGRESS REPORT AUGUST 1972

TO THE SHAREHOLDERS

FINANCIAL

First Half 1972

Net income for the first half of 1972 increased by 32% to \$250,000 (6.3¢ per share) compared to \$190,000 (4.8¢ per share) in the same period in 1971. Cash flow, at \$394,000 (9.9¢ per share) was 30% above the previous year's comparable figure of \$303,000 (7.6¢ per share).

The continuing high demand for Western Canadian crude in 1972 and the acquisition of additional interests in the Turner Valley Alberta field, resulted in higher sales and production expenses. Oil sales increased by \$85,000 (21%) to \$499,000; gas sales increased by \$28,000 (76%) to \$64,000 and production expenses increased by \$28,000 (26%) to \$137,000. General and Administrative expenses (\$40,000) and interest expense (\$22,000) remained virtually constant with the comparable period last year.

During the first half, exploration and development expenditures amounted to \$396,000 compared with \$153,000 last year. With the retirement of production payments of \$239,000, Petrol's working capital position at June 30, 1972 amounted to \$971,000.

OIL PRODUCTION

Net oil production during the first half of 1972 totalled 171,900 barrels, a 20.7% increase over the equivalent period last year.

Simonetite, Alberta

The construction of a second gas plant in the Simonetite field will commence shortly and is expected to be completed by mid-1973. Increasing oil allowances allocated to the Simonetite D3 field have made the existing plant inadequate to handle the volumes of attendant solution gas. The new complex will more than double the daily capacity of the present plant, as summarized below:—

Existing	1973	Mid-
Raw gas — MMCF/D	15	37
Sales gas — MMCF/D	11	27
Gas Liquids — B/D	450	1540
Sulphur — LT/D	93	209

With this additional plant capacity and the present excess oil producing capacity of the Simonetite D3 field, your Company will benefit from the increasing demand for oil and gas. Studies are also currently being completed for the implementation of a pressure maintenance project as well as the enlargement of the field producing facilities. Petrol's interest in the revenues from the Simonetite D3 Unit is approximately 8.4%.

EXPLORATION

Mackenzie River Valley, N.W.T.

Petrol will participate in the drilling of at least three wells in the Mackenzie Valley this fall and winter. The first of these, Decata Trms Ocn GCOA Ontario 1-28 will commence about September 1, 1972 and will be a 7,500-foot test. This well is the first of the option wells which may be drilled to earn an interest in 815,112 acres which Petrol and its associates have under seismic work completed on this acreage in the early part of 1972. The first well will earn Petrol and associates a 50% interest in slightly over 153,000 acres.

To reduce drilling costs and to gain access to the well site prior to freeze-up, the Company will be utilizing a drilling rig which can be transported by helicopter. The rig and supplies are currently being carried by barge down the Mackenzie River from Fort Norman. The barges will unload

INDUSTRY DEVELOPMENTS IN ALBERTA

Gas Prices

A number of events which have occurred in recent months could exert a considerable upward pressure on Alberta gas wellhead prices.

Firstly, the recent report of the Stanford Research Institute presented at the second phase of the Alberta Gas Hearings, indicated that Alberta natural gas, compared to competitive fuels, is underpriced by about 20¢ per mcf.

Secondly, the necessity for increased prices for gas has just been officially recognized by the Energy Resources Conservation Board as being in Alberta's public interest.

Thirdly, a new company, Pan-Alberta Gas Ltd., has recently been formed to introduce competition into the gas purchasing end of the business. Press reports indicate that Pan-Alberta is already soliciting gas producers to purchase uncommitted reserves on short-term (five-year) contracts at prices indicated to be as high as 38¢ per mcf. Before such contracts become a reality, however, Pan-Alberta must obtain the approval of governmental agencies both in Canada and the U.S.A. to export Alberta gas to the United States.

Fourthly, a substantial number of older gas purchase contracts will be renegotiated before the end of 1972; such renegotiation will likely result in material price increases to the producers in the light of the Stanford Research Institute figures and the entry of Pan-Alberta as a purchaser of natural gas.

Realistic gas prices will provide producers with needed cash flow to continue the search for additional reserves and could make economically viable the marketing of currently shut-in gas reserves.

Natural Resource Revenue Plan

On July 29, 1972, the Alberta government announced a new policy concerning the taxing of oil reserves in the ground. Industry will have the choice of accepting a new reserves tax or voluntarily accepting a royalty increase in place of the reserves tax. In addition, incentives will be offered to industry by way of credits against royalties, the reserve tax, or rentals of a significant portion of the cost of all new field wildcats drilled. Each new field wildcat oil discovery will also be granted a five-year royalty-free period. We anticipate credits received from exploratory drilling will reduce the impact of the new tax on Petrol.

Alaska - North Slope

The Mobil Echooka Unit 1 well is now drilling below 10,000 feet. Petrol has a small interest in this well but the significance of this well is that Petrol has a 1.5% interest in 99,000 lease acres in this vicinity. Any discovery at Echooka could be important to your company. Approximately 40 miles east at the Echooka well the Forest Kemik Unit 1 well has been announced as having encountered "commercial hydrocarbons". The Petrol acreage is thought to be in the same geological environment as both the Echooka and Kemik wells.

Arctic - Polynia Islands

The Panartic BP Skelly Brock 1-20 well which was drilled 22 miles northeast of our acreage has been abandoned at 10,422 feet.

TO THE SHAREHOLDERS

FINANCIAL

First Half 1972

Net income for the first half of 1972 increased by 32% to \$250,000 (6.3¢ per share) compared to \$190,000 (4.8¢ per share) in the same period in 1971. Cash flow, at \$394,000 (9.9¢ per share) was 30% above the previous year's comparable figure of \$303,000 (7.6¢ per share).

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OIL PRODUCTION

Net oil production during the first half of 1972 totalled 171,900 barrels, a 20.7% increase over the equivalent period last year.

Simonette, Alberta

The construction of a second gas plant in the Simonette field will commence shortly and is expected to be completed by mid-1973. Increasing oil allowables allocated to the Simonette D3 field have made the existing plant inadequate to handle the volumes of attendant solution gas. The new complex will more than double the daily capacity of the present plant, as summarized below:—

	Existing	Mid-1973
Raw gas — MMCF/D	15	37
Sales gas — MMCF/D	11	27
Gas Liquids — B/D	450	1540
Sulphur — LT/D	93	209

With this additional plant capacity and the present excess oil producing capacity of the Simonette D3 field, your Company will benefit from the increasing demand for oil and gas. Studies are also currently being completed for the implementation of a pressure maintenance project as well as the enlargement of the field producing facilities. Petrol's interest in the revenues from the Simonette D3 Unit is approximately 8.4%.

EXPLORATION

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at the mouth of the Tree River, from which point everything will be broken down into packages of 3,800 to 4,400 pounds and will be moved about 68 miles by helicopter to the location.

The other wells to be drilled in our Mackenzie River program this winter will be drilled further south in the general Fort Norman area and will be announced at a later date.

Alaska - North Slope

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The PETROL Oil and Gas Company Limited



Annual Report 1972

The PETROL Oil and Gas Company Limited

Annual Meeting

The annual meeting of the shareholders of the Company will be held at the Royal York Hotel, Toronto, Ontario on April 26, 1973 at 2:00 p.m., local time. A formal notice of the meeting together with a proxy form and information circular, is enclosed with this report.

Officers and Directors

Charles S. Lee

Calgary, Alberta

President of the Company

Chairman of Western Decalta Petroleum Limited

Director of Consolidated West Petroleum Limited

Alastair H. Ross

Calgary, Alberta

Vice-President of the Company

President of Western Decalta Petroleum Limited

President of Consolidated West Petroleum Limited

L.G. Elhatton

Calgary, Alberta

Secretary-Treasurer of the Company

Secretary of Western Decalta Petroleum Limited

Harold J. Howard

Calgary, Alberta

Retired Executive

James L. Lewtas, Q.C.

Toronto, Ontario

Partner of Campbell, Godfrey & Lewtas

Barristers and Solicitors

F. Richard Matthews, Q.C.

Calgary, Alberta

Partner of MacKimmie Matthews

Barristers and Solicitors

Robert Tetrault

Calgary, Alberta

President of Alberta White Trucks (Calgary) Limited

Summary of the Year 1972

FINANCIAL	1972	1971
Gross Income	\$1,232,000	\$999,000
Cash flow	808,000	644,000
Per share - ¢	20.2	16.1
Depreciation and depletion	318,000	233,000
Net income	490,000	411,000
Per share - ¢	12.3	10.3
Working capital	590,000	1,212,000
Exploration & development	947,000	662,000
OPERATING		
Oil production		
— net barrels	351,000	298,000
Natural gas sales		
— net mcf	858,000	501,000
Proven and probable additional reserves		
Oil — gross barrels	9,322,000	8,884,000
Natural gas — gross mcf	29,300,000	23,800,000
Sulphur — long tons	89,000	86,000
Land holdings		
Gross acres	11,659,000	11,518,000
Net acres	437,000	477,000

President's Letter

The year 1972 was a good one for your Company; once again Petrol recorded gains in revenues, cash flow, production volumes and reserves.

Net income at \$490,000 rose by 19.2% from \$411,000 in 1971. Earnings per common share amounted to 12.3¢ compared with 10.3¢ earned in 1971.

Cash flow from operations at \$808,000 recorded a 25.5% gain over 1971 at \$644,000. On a per share basis, cash flow for the comparative years was 20.2¢ and 16.1¢ respectively.

The above improvements resulted primarily from higher production volumes of both crude oil and natural gas. Crude oil production at 351,000 net barrels was 17.8% higher than in 1971 while deliveries of natural gas rose by 71.3% to 858 million cubic feet.

Crude oil reserves at the year end totalled 9,322,000 gross barrels, up 4.9% from 8,884,000 barrels on the same date last year. Reserves of natural gas totalled 29.3 billion cubic feet, a gain of 23% over 1971.

During 1972, the Company acquired additional interests in oil and gas properties in Turner Valley, Alberta and early in 1973 purchased an interest in various producing and non-producing properties in the United States.

In conjunction with its parent company, Petrol participated in exploratory programs in the MacKenzie River Valley in the Northwest Territories, in the Western Canadian Provinces, on Prince of Wales Island in the Arctic Islands and in New Brunswick. Details of these operations are included in the exploration section of this report.

Petrol's parent company has incorporated a United States subsidiary known as Decalta International Corporation. Your Company has a 15% share interest in this corporation which will hold not only the recent acquired properties in the United States and Indonesia but also in other lands. Active negotiations covering prospective petroleum acreage in Africa, South America and Europe are currently being conducted.

On behalf of the Board, I should like to extend our sincere appreciation to those whose efforts have made Petrol's growth record possible.

March 20, 1973
Calgary, Alberta



C.S. Lee
President

Production

Net crude oil production amounted to 351,000 barrels (959 barrels daily), a 17.8% gain over the 1971 volume of 298,000 barrels (814 barrels daily). The main sources of this increased volume was derived from the Company's properties at Fenn, Simonette and Turner Valley, all in Alberta.

Natural gas deliveries in 1972 were up by 71.3% to 858 million cubic feet from 501 million last year. Daily average gas volumes were 2.3 million cubic feet in 1972 vs. 1.4 million in 1971. Properties in Alberta contributing to this increase include those at Ashmont, Ghost Pine, Hussar, Simonette and Turner Valley.

During 1972, Petrol received an average price of \$2.88 per barrel for its crude oil and 18.8¢ per mcf for its natural gas and liquids.

Recently, the price of the Company's crude oil in Western Canada increased 30¢ per barrel from approximately \$2.78 per barrel to \$3.08 per barrel. Price increases occurred in November 1972 and January 1973 and will be fully reflected in the 1973 revenues.

Simonette

The construction of a second gas plant in the Simonette field is expected to be completed in the Fall of 1973. Increasing oil allowables allocated to the Simonette D3 field have made the existing plant inadequate to handle the volumes of attendant solution gas. The new complex will more than double the daily capacity of the present plant, as summarized below: --

	Existing	1973
Raw gas - MMCF/D	15	37
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Sulphur - LT/D	93	209

With this additional plant capacity and the present excess oil producing capacity of the Simonette D3 field, your Company will benefit from the increasing demand for oil and gas. Field producing facilities are currently being enlarged to handle the higher volumes and to facilitate implementation of a pressure maintenance project in 1974. Petrol's interest in the revenues from the Simonette D3 Unit is approximately 8.4%.

OIL PRODUCTION BY FIELDS

(Thousands of Barrels)

ALBERTA	1972	1971	1970	1969	1968
Fenn	24	17	14	12	12
Mitsue	25	26	25	22	15
Pembina	83	85	80	73	68
Simonette	149	115	95	83	50
Swan Hills	5	6	6	7	9
Turner Valley	27	16	15	14	12
Other Fields	12	8	6	7	7
	325	273	241	218	173

SASKATCHEWAN

Instow	5	5	6	6	6
Other Fields	5	5	4	3	5
	10	10	10	9	11

BRITISH COLUMBIA

	2	1	1	1	1
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UNITED STATES

	14	14	9	11	10
	351	298	261	239	195

GAS PRODUCTION BY FIELDS

(Millions of Cubic Feet)

ALBERTA	1972	1971	1970	1969	1968
Ashmont	91	53	135	—	—
Ghost Pine	19	10	55	46	53
Gordondale	—	16	22	—	—
Hussar	90	72	—	—	—
Pembina	24	38	39	29	23
Simonette	366	259	203	97	64
Turner Valley	240	24	24	20	18
Other	15	11	4	—	—
	845	483	482	192	158

BRITISH COLUMBIA	1	—	—	—	—
ONTARIO	—	—	—	10	14
SASKATCHEWAN	4	5	13	7	8
UNITED STATES	8	13	5	—	—
	858	501	500	209	180

Reserves

Crude oil reserves increased by 4.9% from 8,884,000 gross barrels in 1971 to 9,322,000 barrels. Gross oil production in 1972 amounted to 421,000 barrels. The increased oil reserves reflect the acquisition of additional interests in the Turner Valley field and an upward adjustment of reserves in the Company's Pembina Belly River properties.

Natural gas reserves increased by 23% to 29.3 billion cubic feet after producing .97 billion cubic feet in 1972. The increase in natural gas reserves arose from the previously mentioned acquisitions in Turner Valley and the results of drilling during the year.

Sulphur reserves at end of 1972 amounted to 89,000 long tons (86,000 long tons last year). Petrol continues to stockpile its sulphur production pending more favorable prices.

A summary of the Company's crude oil, natural gas and sulphur reserves is presented below with comparative figures for the previous year. The reserves have been estimated by an independent consultant.

**Proven and Probable
Additional Reserves
December 31.**

	1972	1971
Crude Oil - gross barrels . . .	9,322,000	8,884,000
Natural Gas - gross mcf	29,300,000	23,800,000
Sulphur - gross long tons . .	89,000	86,000

Exploration

THE NORTHWEST TERRITORIES

Mackenzie River Valley (Map No. 1)

In the Territories, Petrol owns interests varying from 1.25% to 15% in 2,878,700 gross acres (121,400 net acres). In addition the Company can earn interests varying from 1.25% to 3.75% in 1,238,600 gross acres (29,400 net acres) in certain option lands.

Norman Wells - Wrigley Area

During the year, Petrol and its associates entered into a farmout agreement with a major company which involved a seismic survey of approximately 93 miles and the payment by the farmee of a substantial portion of the costs of drilling the well, Decalta SOBC Gulf AmMin Johnson A-12 (63° 33'N, 124 ° 03'W). The drilling of this well is now in progress and will earn the farmee an interest in 57,000 acres and the right to drill additional wells up to a maximum of 5 over a two year period to earn an interest in 285,900 acres. Petrol also participated in the drilling of Decalta CS Mesa Redstone P-78 (64° 07'N, 124° 27'W); this well was abandoned at 3890 feet. During the 1973 summer season, Petrol expects to participate in the drilling of one or two additional wells in the Fort Norman area utilizing a helicopter-borne drilling rig.

Tree River - Grandview Area

As a result of a geological study which indicated reef prospects and oil shows in previous wells, Petrol and its associates undertook a seismic option on 296,000 acres in the Tree River area. The terms of the option require the Company and its associates to do 150 miles of seismic during the 1972-73 winter season. If drilling prospects are delineated, each well will earn for the group a 50% interest in approximately 49,000 acres. Petrol will earn 2.5% in each block by paying 5% of the well cost. It is anticipated that such drilling can be done during the summer season by use of a helicopter rig.

Grandview Hills

In August 1972, the Company reported its participation in the drilling of Decalta Trns Ocn GCOA Ontaratue P-38. This well was dry and abandoned but earned Petrol a 2.5% interest in 154,500 acres. It is expected that further seismic surveys will be done on the Grandview block in 1973-74. Petrol can earn similiar interests in up to 815,100 acres by participating in the drilling of 4 additional wells. Currently a 7000 foot well, Inexco Weldon Creek 0-65 is drilling some 9 miles southwest of our lands.

Arctic Islands

During the year a 330 mile seismic survey was conducted on Prince of Wales Island where Petrol has an interest in 4,579,900 gross acres (103,500 net acres). The results of this survey indicated several large structures. This land is strategically situated near the Boothia Peninsula, the logical eastern route for a pipeline from the more northerly Arctic Islands where large gas discoveries are being found. Plans are being made now to stockpile fuel for the next step in the exploration of these lands, which will probably entail a further seismic survey and exploratory drilling.



Indonesia (Map No. 2)

Petrol has a 3% interest in a Technical Assistance Contract comprising 67,750 gross acres (2,000 net acres).

Pertamina, a government-owned oil company, has issued a "Technical Assistance Contract" by which it undertakes to pay for such assistance by way of assigning 57.75% of the proceeds of production to the contracting party until recovery of all costs and then 35% of the proceeds of production thereafter; Pertamina will also pay all income tax. A number of old shallow depleted oilfields exist in the Contract area and while small in area produced some 56 million barrels of oil. The Contract was undertaken with the hope of finding more of these shallow fields and of

finding oil in deeper untested sands. A 200 mile seismic survey has been completed and the data is currently being evaluated.

Alberta

In the shallow gas play in the south-eastern part of Alberta, the Company participated in the drilling of 3 gas wells at Hussar, 3 gas wells at Esther and 1 gas well each at Taber, Chauvin and Oyen. Oil wells were drilled at Gilby and Wainwright. Land acquisitions totalling 133,000 gross acres in which Petrol owns varying interests were acquired during the year.

British Columbia

At Chowade, west of Fort St. John, the Company participated in a further seismic program which led to negotiations with the holders of offsetting land to expand the prospect area. Petrol participated in the drilling of 2 gas wells at Fireweed and a gas well at Velma. Land acquisitions were made in the Buick Creek, Willow and Nettle areas.

New Brunswick

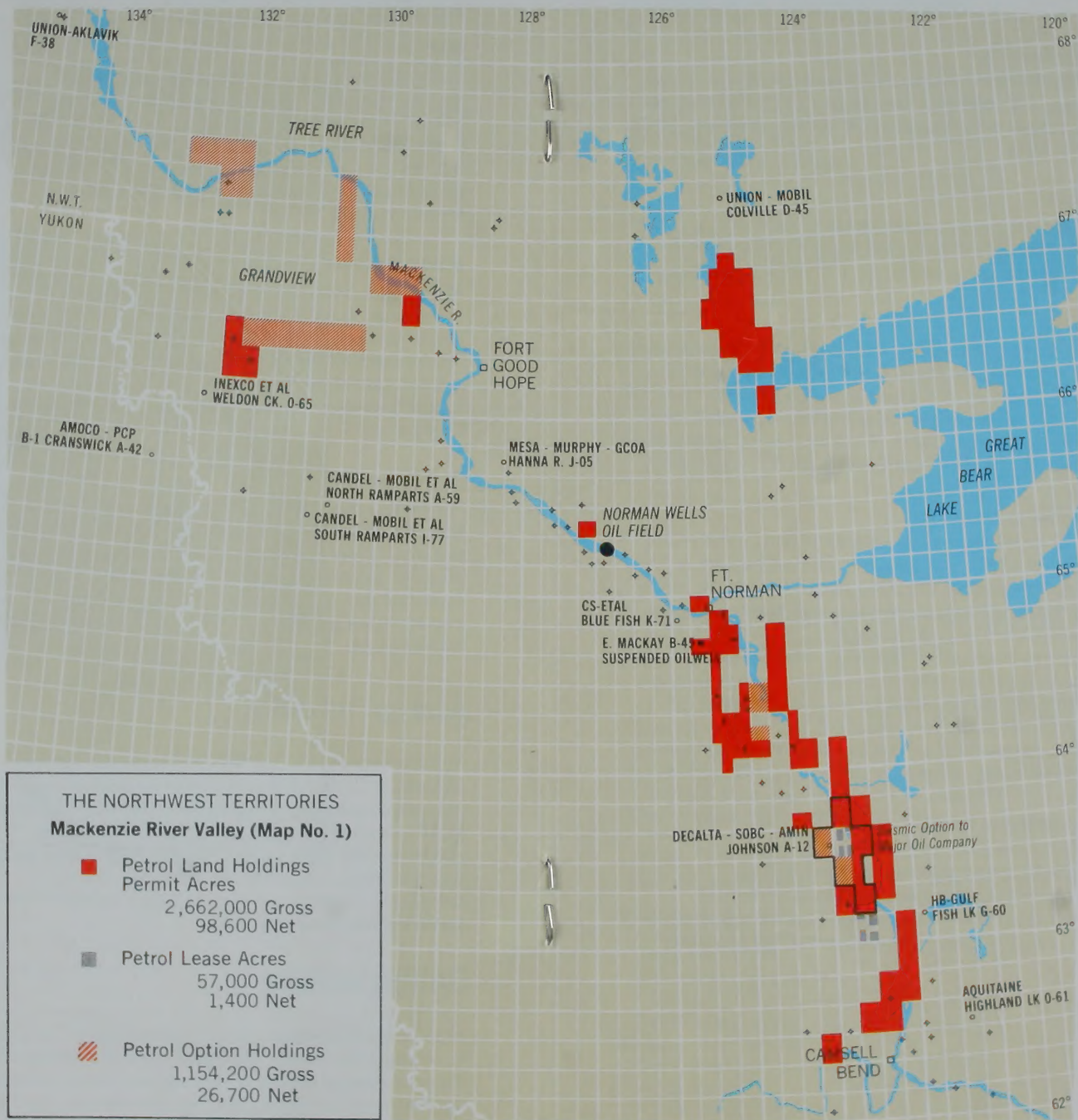
Following a seismic survey at Urney in Waterford County, New Brunswick the Company is participating in the drilling of a well, Urney 72-1. This currently drilling well lies some 35 miles south-west of the Stoney Creek oil and gas field. Petrol will pay 15% of the well costs to earn a 7.5% interest in the drilling block consisting of approximately 44,000 acres.

Acreage Holdings

At December 31, 1972, the Company owned varying interests in 11,659,000 gross acres equivalent to 437,000 net acres; comparative figures for 1971 were 11,518,000 gross acres and 477,000 net acres. During the year, additions were made to the Company's land portfolio in Alberta, British Columbia and in New Brunswick. A summary of acreage holdings by area is shown in the statistical section of this report.

Drilling Activity

In 1972, Petrol participated in the drilling of 54 wells with an average interest of 3.1%. Of the 54 wells, 41 were drilled in Alberta and British Columbia; 7 were drilled in the Northwest Territories and 3 each in Ontario and the United States. The drilling resulted in 8 gross (.1 net) oil wells; 13 gross (.8 net) gas wells and 33 gross (.8 net) dry holes.



Income Statement

Net Income

Consolidated net income in 1972 was \$490,000, a gain of 19.2% over net income of \$411,000 in 1971. Earnings per common share amounted to 12.3¢ as compared with 10.3¢ earned in 1971.

Cash Flow

Cash flow from operations amounted to \$808,000, a 25.5% increase over 1971 at \$644,000. Cash flow per share for the comparative years was 20.2¢ and 16.1¢ respectively.

Revenues

As a result of larger volumes sold, revenues from both oil and gas recorded new highs in 1972. Oil revenues at \$1,013,000 were up 17.7% over the 1971 total of \$860,000 while natural gas sales in 1972 amounted to \$161,000 (\$77,000 in 1971). Gross income for 1972 and 1971 amounted to \$1,232,000 and \$999,000 respectively.

Charges Against Revenue

Total cash expenses amounted to \$424,000 in 1972 (\$355,000 in 1971) an increase of 19.4%. Production expenses increased by \$79,000 (33.2%) from \$238,000 in 1971 to \$317,000 last year. While the costs of producing crude oil declined on a per barrel basis, the costs of operating gas plants within tighter environmental regulations more than offset these gains. During 1973, it is anticipated that higher prices for natural gas, especially from the Turner Valley field, will offset the increasing costs of processing natural gas. Both administrative and interest expenses were reduced during 1972.

Source and Use of Funds

During 1972, funds derived from operations totalled \$808,000. Expenditures included \$947,000 for exploration and development and \$483,000 for the retirement of production payments. Working capital at the year end was \$590,000 compared with \$1,212,000 last year.

Consolidated Statement of Income and Earned Surplus

	For The Years Ended December 31	
	1972	1971
Net oil and gas sales	\$1,180,000	\$ 943,000
Interest and other income	52,000	56,000
	<u>1,232,000</u>	<u>999,000</u>
Deduct:		
Production expenses	317,000	238,000
General and administra- tive expenses	69,000	72,000
Interest expense	38,000	45,000
	<u>424,000</u>	<u>355,000</u>
Cash flow from operations	808,000	644,000
Depreciation and depletion	318,000	233,000
Net income for the year (see notes)	490,000	411,000
Earned surplus at beginning of year	<u>1,322,000</u>	<u>911,000</u>
Earned surplus at end of year	<u>\$1,812,000</u>	<u>\$1,322,000</u>
Net income per common share.	12.3¢	10.3¢

Consolidated Statement of Source and Application of Funds

	For The Years Ended December 31	
	1972	1971
Source of funds:		
Cash flow from operations ...	\$ 808,000	\$ 644,000
Sale of production pay- ments		625,000
Other		2,000
Total funds provided	<u>808,000</u>	<u>1,271,000</u>
Application of funds:		
Additions to property and equipment	947,000	662,000
Retirement of production payments	483,000	425,000
Total funds applied	<u>1,430,000</u>	<u>1,087,000</u>
Increase (decrease) in working capital	(622,000)	184,000
Working capital at beginning of year	<u>1,212,000</u>	<u>1,028,000</u>
Working capital at end of year	<u>\$ 590,000</u>	<u>\$1,212,000</u>
See accompanying notes.		

Consolidated Balance Sheet

ASSETS	As at December 31	
	1972	1971
CURRENT:		
Cash	\$ 154,000	\$ 82,000
Short term investments at cost which approximates market	600,000	1,000,000
Accounts receivable	66,000	69,000
Due from affiliated company		169,000
Prepaid expenses	5,000	4,000
	<u>825,000</u>	<u>1,324,000</u>
REFUNDABLE DEPOSITS	<u>1,000</u>	<u>1,000</u>
PROPERTY AND EQUIPMENT AT COST:		
Oil and gas properties less accumulated depletion of \$2,081,000 (1971-\$1,872,000)	3,829,000	3,535,000
Plant and equipment less accumulated depreciation of \$845,000 (1971-\$748,000)	828,000	493,000
	<u>4,657,000</u>	<u>4,028,000</u>
OTHER:		
Sundry investments at cost ..	2,000	2,000
	<u>\$5,485,000</u>	<u>\$5,355,000</u>

See accompanying notes.

Auditors' Report

To the Shareholders of
THE PETROL OIL & GAS COMPANY, LIMITED.

We have examined the consolidated balance sheet of The Petrol Oil & Gas Company, Limited and its subsidiary companies as at December 31, 1972 and the consolidated statements of income, earned surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

the **PETROL** oil and gas company limited
and subsidiary companies

LIABILITIES	As at December 31	
	1972	1971
CURRENT:		
Accounts payable and accrued charges	\$ 207,000	\$ 99,000
Due to parent company	28,000	13,000
	<u>235,000</u>	<u>112,000</u>
DEFERRED PRODUCTION INCOME (Note 3)	<u>694,000</u>	<u>1,177,000</u>
SHAREHOLDERS' EQUITY:		
Capital-		
Authorized - 8,000,000 shares of no par value		
Issued - 3,995,000 shares	2,744,000	2,744,000
Earned surplus (see statement page 15) ..	1,812,000	1,322,000
	<u>4,556,000</u>	<u>4,066,000</u>
	<u>\$5,485,000</u>	<u>\$5,355,000</u>

On behalf of the Board:


Director.


Director.

In our opinion these financial statements present fairly the financial position of The Petrol Oil & Gas Company, Limited and its subsidiary companies at December 31, 1972, the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada.
February 14, 1973

CLARKSON, GORDON & CO.
Chartered Accountants

Notes to Consolidated Financial Statements

DECEMBER 31, 1972

1. Basis of consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries. The accounts of a subsidiary company operating in the United States are, for purposes of consolidation, included on the basis of \$1 U.S. equals \$1 Canadian. Net assets so converted amounted to \$212,000.

2. Accounting practice

The companies follow the full-cost method of accounting wherein all costs relative to the exploration for and the development of oil and gas reserves, whether productive or non-productive, are capitalized and depleted on the composite unit of production method based on estimated proven reserves of oil and gas. Depreciation of plant and equipment is provided at rates which are designed to amortize cost over the estimated useful life of these assets.

3. Deferred production income

In prior years production payments, representing a portion of the Company's interest in future production from certain oil lands, were sold for cash. Production from the interests in the oil and gas reserves of the lands covered by these production payments will revert to the Company after repayment of the principal amounts. Due to the short term nature of these financing arrangements, all of which are expected to be retired within three years, proceeds from the sales of the production payments have been deferred in the accounts and are reflected in income as the related oil and gas reserves are produced and sold. Repayments during the year on production payments amounted to \$483,000.

4. Income taxes

For income tax purposes, the companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in amounts which exceed the related charges against earnings. As a result, no income taxes are payable in respect of the net income reported for the year ended December 31, 1972 and at that date accumulated expenditures of \$950,000 remain to be carried forward and applied against future taxable income. For 1972, capital cost allowance claims will be less than depreciation recorded in the accounts.

The Canadian Institute of Chartered Accountants recommends income tax allocation for all differences in the timing of deductions for tax and accounting purposes but the Company, in common with many other companies in the oil and gas industry in Canada, does not believe that tax allocation in respect of drilling, exploration and lease acquisition costs is appropriate. Accordingly, no provision has been made for deferred taxes on timing differences involving such costs.

Had provision for deferred income taxes been made with respect to all differences in timing of deductions for tax and accounting purposes deferred income taxes of \$165,000 or 4.1¢ per share in 1972 (\$140,000 or 3.5¢ per share in 1971) would have been provided and the net income for the year would have been reduced accordingly. The accumulated income tax deferrals relative to all timing differences amounted to approximately \$925,000 at December 31, 1972.

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Summary of Acreage Holdings

Area:	Petroleum & Natural Gas Leases		Reservations, Licenses Permits (*)		Total	
	Gross	Net	Gross	Net	Gross	Net
Alberta	571,400	37,000	121,700	5,500	693,100	42,500
Alaska	144,000	1,900			144,000	1,900
British Columbia	22,700	1,100	29,600	9,900	52,300	11,000
Hudson Bay			308,300	15,400	308,300	15,400
Maritimes (offshore)			1,630,200	73,900	1,630,200	73,900
New Brunswick	22,400	1,700			22,400	1,700
Northern Canada:						
Northwest Territories	57,500	1,400	2,821,200	120,000	2,878,700	121,400
Beaufort Sea			628,000	36,700	628,000	36,700
Arctic Islands			5,221,300	128,400	5,221,300	128,400
Saskatchewan	32,100	1,800	36,800	1,800	68,900	3,600
United States	6,800	200	4,800	200	11,600	400
	856,900	45,100	10,801,900	391,800	11,658,800	436,900

* Convertible into leases to the extent of approximately 50%

ANALYSIS OF GROSS INCOME

(Thousands of dollars)

	1972	1971	1970	1969	1968
Net Oil Sales	\$1,013	860	689	628	503
Net Gas Sales	161	77	73	43	40
Royalty Revenue	6	6	6	6	6
Net Oil and Gas Sales .	1,180	943	768	677	549
Interest and					
Other Income	52	56	5	15	17
	\$1,232	999	773	692	566

EXPENDITURES FOR FINDING AND DEVELOPING

(Thousands of dollars)

	1972	1971	1970	1969	1968
Land and Rentals	\$142	315	64	220	98
Geological and					
Geophysical	149	57	28	30	13
Non-productive Drilling	149	76	55	90	54
Productive Drilling	65	70	34	85	8
Productive Equipment .	442	144	101	271	54
	\$947	662	282	696	227

Ten Year Statistical Review

	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963
INCOME										
Net oil and gas sales	\$1,180	943	768	677	549	561	563	528	533	499
Interest and other income	52	56	5	15	17	9	8	6	10	13
Gross income	1,232	999	773	692	566	570	571	534	543	512
EXPENSES										
Production	317	238	195	167	152	162	166	159	160	166
General and administrative	69	72	68	56	48	42	40	38	37	41
Interest	38	45	13	12	15	30	30	15	—	—
Total	424	355	276	235	215	234	236	212	197	207
CASH FLOW FROM OPERATIONS	808	644	497	457	351	336	335	322	346	305
Per share - ¢	20.2	16.1	12.4	11.4	8.8	8.4	8.4	8.0	8.6	7.6
DEPRECIATION AND DEPLETION	318	233	199	186	162	172	179	177	147	note 2
NET INCOME										
ON OPERATIONS	490	411	298	271	189	164	156	145	199	78
Gain on sale of securities	—	—	—	—	—	—	—	22	9	20
NET INCOME (2)	490	411	298	271	189	164	156	167	208	98
Per share (exclusive of special gains) - ¢	12.3	10.3	7.4	6.8	4.7	4.1	3.9	3.6	5.0	
WORKING CAPITAL (DEFICIENCY)	590	1,212	1,028	(191)	306	243	216	193	150	415
EXPENDITURES										
Exploration and development	947	662	282	696	227	229	462	725	527	258
PRODUCTION										
Oil - net barrels	351	298	261	239	195	201	205	188	191	180
Gas - net mcf	858	501	500	209	180	116	27			
RESERVES (3)										
Oil - gross barrels	9,322	8,884	8,232	8,594	8,967	8,807	8,805	7,786	7,458	4,572
Gas - gross mcf	29,300	23,800	22,900	19,800	17,300	18,300	4,900	5,200	3,700	3,700
LAND HOLDINGS										
Gross acres	11,659	11,518	11,786	12,713	4,852	2,947	2,842	471	450	457
Net acres	437	477	487	630	394	324	316	144	147	143
SHARES OUTSTANDING	3,995	3,995	3,995	3,995	3,995	3,995	3,995	3,995	3,995	3,995

Notes

(1) The above statistics are for The Petrol Oil & Gas Company, Limited and its wholly-owned subsidiaries. With the exception of per share figures, amounts are in thousands.

(2) Full-cost method of accounting for exploration and development expenditures was adopted in 1964.

(3) Includes proven and probable additional reserves.

TRANSFER AGENTS

*Crown Trust Company
302 Bay Street,
Toronto 101, Ontario*

HEAD OFFICE

*36th Flr., Toronto-Dominion Centre,
Toronto, Ontario*

EXECUTIVE OFFICE

*630 - 6th Avenue S.W.,
Calgary, Alberta, Canada T2P 0T2*

LISTING

Toronto Stock Exchange

SUBSIDIARY COMPANIES

*The Petrol Oil and Gas Corporation
Petrol Mineral Enterprises Ltd.*

